



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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In the Matter of the Application of San Diego Gas & Electric Company (U902G) and Southern California Gas Company (U904G) for Authority to Revise Their Rates Effective January 1, 2009, in Their Biennial Cost Allocation Proceeding.

Application 08-02-001  
(Filed February 4, 2008)

**PROTEST  
OF THE DIVISION OF RATEPAYER ADVOCATES**

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March 7, 2008

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In the Matter of the Application of San Diego Gas & Electric Company (U902G) and Southern California Gas Company (U904G) for Authority to Revise Their Rates Effective January 1, 2009, in Their Biennial Cost Allocation Proceeding.

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In accordance with Rule 2.6 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), the Division of Ratepayer Advocates (“DRA”) hereby submits its protest in the above-captioned proceeding, the Biennial Cost Allocation Proceeding (“BCAP”) application of San Diego Gas & Electric Company (“SDG&E”) and Southern California Gas Company (“SoCalGas”) (collectively, “Applicants”). The notice of the filing of the application first appeared on the Commission’s Daily Calendar on February 6, 2008; therefore, this protest is timely filed pursuant to Rule 2.6(a).

DRA opposes Applicants’ request to bifurcate storage-related issues into an expedited, first phase of the proceeding. These issues should be examined at the same time as the other issues raised in this BCAP, and there is no urgency that necessitates a bifurcation of the proceeding or a truncated procedural schedule.

DRA also opposes Applicants’ attempt to re-litigate the issue of the appropriate level of storage inventory capacity for Applicants’ core requirements. This issue has

been resolved by the Commission in Decision (“D.”) 07-12-019<sup>1</sup> and, therefore, is outside the scope of this BCAP. In conjunction with this protest, DRA is filing a motion to strike those portions of Applicants’ prepared direct testimony relating to their proposed core storage reservation level.

## **I. BACKGROUND**

Applicants seek Commission authority to set rates for gas service to recover their revenue requirements over a modified, three-year period effective January 1, 2009. Applicants’ specific proposals include the following: (1) revise rates to reflect the updated customer allocation of base margin costs of service; (2) update demand forecasts and set a new rate design for noncore transportation service; (3) “address issues deferred from other proceedings to the BCAP”; (4) “narrow the ‘regulatory gap’ with interstate pipelines”; (5) change the traditional, two-year BCAP period into a triennial period of three years between filings; (6) continue 100-percent balancing account treatment of Applicants’ noncore transportation revenue requirement; (7) create incentive mechanisms for unbundled storage and Operational Hub revenues; and (8) “support the core storage allocation based on its cold temperature year reliability needs.”<sup>2</sup> In addition, Applicants propose to replace the adopted long-run marginal cost (“LRMC”) cost allocation methodology with an embedded cost approach and, accordingly, Applicants include in their prepared direct testimony a “compliance” case based on LRMC and their “preferred” case based on embedded costs.<sup>3</sup>

Applicants also cite as the driving force behind a number of their BCAP proposals a trio of recent Commission decisions: the system integration decision, D.06-04-033; the

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<sup>1</sup> Re Southern California Gas Company, San Diego Gas & Electric Company and Southern California Edison Company, Opinion Regarding Proposed Changes to Natural Gas Operations and Service Offerings (“Omnibus Decision”), Decision (“D.”) 07-12-019, Dec. 6, 2007.

<sup>2</sup> Application of San Diego Gas & Electric Company and Southern California Gas Company in the 2009 Biennial Cost Allocation Proceeding (“Application”), Application (“A.”) 08-02-001, filed Feb. 4, 2008, pp. 1-2.

<sup>3</sup> See Application, pp. 2-3, 6-8, 9.

firm access rights (“FAR”) decision, D.06-12-031; and the Omnibus Decision, D.07-12-019. For instance, Applicants state that the FAR decision “required inclusion of a cost study of the backbone transmission system as well as a proposal for a new cost-based FAR reservation charge.”<sup>4</sup> Applicants add that the FAR decision also “required SoCalGas to include a proposal for a total redesign of its rates consistent with the FAR decision’s discussion to close or minimize the ‘regulatory gap’ with interstate pipelines and concurrently sunset SoCalGas’ existing peaking service tariff.”<sup>5</sup>

Applicants state that the Omnibus Decision deferred to this BCAP certain issues raised in the Omnibus proceeding, including: “the treatment of hub revenues; the treatment of revenues and costs associated with SoCalGas’ unbundled storage program; the maximum rates for unbundled storage services; and certain concerns raised by the City of Long Beach and Southwest Gas Corporation regarding parity with the core customers of [Applicants].”<sup>6</sup>

## **II. PROTEST**

### **A. Proposed Bifurcation of Storage Issues**

Applicants propose splitting this BCAP into two phases: a first phase to address storage-related issues on an expedited basis, and soon after, a second phase to address all other BCAP issues. DRA opposes Applicants’ proposal as unnecessary.

Applicants provide no good reason to bifurcate the issues raised in the application or to set an extremely condensed procedural schedule. Separately addressing intertwined issues makes little sense; storage risk and revenue issues should be addressed at the same time as transmission risk and the other BCAP issues. Furthermore, Applicants have inappropriately initiated a significant issue proposing to change the core storage reservation for the combined portfolio adopted in D.07-12-019. Applicants’ proposed

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<sup>4</sup> Application, p. 3.

<sup>5</sup> Application, p. 3.

<sup>6</sup> Application, p. 4.

schedule denies intervenors sufficient opportunity to examine the complex application and develop their own positions and testimony. As Applicants themselves note, they requested an extension of the deadline to make their BCAP filing because of the requirements of the Omnibus Decision, yet they now seek to shorten everyone else's time to review the application.<sup>7</sup> Unnecessary phasing of this proceeding would also be an inefficient use of Commission and intervenor time and resources.

## **B. Core Storage Reservation Proposal**

Applicants note that in D.07-12-019, the Omnibus Decision, the Commission deferred to this BCAP certain issues raised in the Omnibus proceeding. According to Applicants, one of these issues is the level of storage inventory capacity that Applicants should hold on behalf of their core customers. Applicants claim that the appropriate level should be determined in this BCAP "because the Omnibus Decision provided that this BCAP is an appropriate forum to provide additional information in considering an appropriate core storage reservation level."<sup>8</sup> Applicants are wrong.

In the Omnibus proceeding, Applicants and Southern California Edison Company sought Commission approval of changes to Applicants' gas service operations resulting from a settlement of issues in state court litigation between the parties. A primary element of the settlement agreement was the consolidation of the core portfolios of SoCalGas and SDG&E. Applicants and SCE proposed that Applicants' combined core storage inventory reservation level should be 70 Bcf.

Following evidentiary hearings in the Omnibus proceeding, the Commission rejected Applicants' 70 Bcf proposal, adopting 79 Bcf as the appropriate level of core storage inventory capacity for Applicants. The Commission found that "Applicants' proposal to reduce the core storage inventory capacity below 79 Bcf and related daily

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<sup>7</sup> See Application, p. 4, n.10.

<sup>8</sup> Prepared Direct Testimony of Herbert S. Emmrich (*Demand Forecast*), Attachment D to A.08-02-001, p. 30.

injection rights in conjunction with consolidation of the SoCalGas/SDG&E portfolios would not be in the public interest.”<sup>9</sup>

Moreover, the Omnibus Decision approved the consolidation of Applicants’ core portfolios contingent on Applicants’ maintaining 79 Bcf of combined storage inventory capacity for the core.

Applicants’ proposal to consolidate the core portfolios of SoCalGas and SDG&E is hereby granted on the condition that existing combined core storage capacity remain in effect. The approved storage capacity for the combined core portfolio is 79 Billion Cubic Feet (Bcf), with daily injection capacity of 369 Million cubic feet per day (MMcf/d) and daily withdrawal capacity of 2,225 MMcf/d.<sup>10</sup>

Applicants’ 70 Bcf proposal in this BCAP is not in the public interest and violates the very requirement on which the Commission conditioned approval of the consolidation of Applicants’ core portfolios. Applicants are improperly attempting to re-litigate an issue that has already been determined against their favor in a final Commission decision. The BCAP is not the appropriate forum in which to petition the Commission to modify the Omnibus Decision. The Commission should reject outright Applicants’ 70 Bcf proposal.

Concurrent with the filing of this protest, DRA is filing a motion to strike Applicants’ prepared direct testimony regarding their proposal for 70 Bcf of core storage capacity. This issue was already resolved in the Omnibus proceeding and, accordingly, is outside the scope of this BCAP.

### **C. BCAP Issues**

DRA has already propounded several data requests to Applicants and DRA will continue to conduct discovery and develop its recommendations regarding the issues raised in the application. Based on its initial review of Applicants’ filing, DRA identifies

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<sup>9</sup> Finding of Fact 11, Omnibus Decision, D.07-12-019, *mimeo.* at 104.

<sup>10</sup> Ordering Paragraph 4, Omnibus Decision, D.07-12-019, *mimeo.* at 114.

the following issues and anticipates that it will address these and other topics in testimony:

- Cost allocation methodologies:
  - Applicants' proposed cost allocation methodology
  - The Commission's adopted LRMC cost allocation methodology
- Rate design and cost allocation policy and implementation:
  - Phasing out of remaining "core averaging" cost subsidy in core rates
  - Revisions to customer charges
  - New noncore service transmission rate offerings
  - System-wide natural gas vehicle rates
  - Allocation of unaccounted-for gas
  - In-kind fuel factors
  - Elimination of peaking rates
- Gas demand forecasts
- Transmission and storage resource plans
- Balancing, tracking and memorandum accounts:
  - Proposed allocations
  - Accuracy and amortization of balances in various accounts
  - Elimination of certain accounts
- Storage issues: core and noncore
- Hub services
- Load balancing rule changes
- Backbone transmission cost study
- Continuation of 100-percent balancing account treatment of transportation revenues
- Change BCAP to triennial proceeding

DRA reserves the right to raise additional issues that arise as DRA continues its examination of the application.

### **III. PROCEDURAL RECOMMENDATIONS**

DRA agrees that this proceeding is appropriately categorized as "ratesetting."

DRA agrees that evidentiary hearings are necessary, but, as discussed above, opposes a bifurcation of the proceeding. Applicants have not shown that bifurcating storage-related issues serves ratepayer interest. DRA requests that the Commission set a single procedural schedule that provides adequate opportunity for discovery, analysis, preparation of testimony, and preparation for evidentiary hearings. DRA proposes that intervenor testimony be due no earlier than August, 2008.

#### IV. CONCLUSION

For the foregoing reasons, DRA urges the Commission to reject Applicants' proposal to bifurcate this BCAP proceeding and set for evidentiary hearing all remaining issues pending a Commission ruling on DRA's concurrently filed motion to strike portions of Applicants' prepared direct testimony.

Respectfully submitted,

/s/ RASHID RASHID

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/s/ MARION PELEO

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March 7, 2008



**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served a copy of the foregoing document  
**“PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES”** in  
**Application 08-02-001.**

A copy has been e-mailed to all known parties of record who have provided electronic mail addresses. In addition, all known parties of record who did not provide electronic mail addresses have been served by first-class mail.

Executed in San Francisco, California, on the 7th day of March, 2008.

/s/     Nelly Sarmiento

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Nelly Sarmiento

**N O T I C E**

Parties should notify the Process Office, Public Utilities  
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